

10. CORPORATE GOVERNANCE

MAKALU

Though Makalu was widely-known to Europeans since mid-XIX century, first ascents were attempted only in the mid-1950-s. This can be explained by the fact that majority of expeditions, visiting Mahalangur Himal with Chomolungma, Lhotse, Makalu peaks, focused mainly on the conquest of the highest mountain on the planet. At the same time its less famous neighbors were in the sidelines for a long period of time and up to a point they have not drawn attention of the global alpinist community.

IDGC of Urals, OAO places a special emphasis on corporate governance assuming that high quality of corporate governance plays a pivotal role in its activities and finally determines its reputation and investment attractiveness. The Company strives to adhere to the recommendations of the Russian Corporate Governance Code (recommended for use by Russian Federal Securities Commission Decree #421/r dd. 04.04.2002) and the principles of corporate governance approved by the best international practices. To ensure shareholder rights for participation in management and decision-taking on vital operating issues there are the following internal documents regulating managing bodies:

- The Charter of IDGC of Urals (approved by the AGSM on 16.06.2011, protocol #3 dd. 17.06.2011)
- The Regulations on the Procedure for AGSM Convention and Arrangement (approved by the AGSM on 16.06.2011, protocol #3 dd. 17.06.2011);
- The Regulations on the Procedure for BoD Convention and Arrangement (approved by the AGSM on 14.06.2012, protocol #4 dd. 15.06.2012)
- The Regulations on the Management Board (approved by the AGSM on 16.06.2011 r., protocol #3 dd. 17.06.2011);
- The Regulations on the Audit Commission (approved by the GSM resolution, protocol #1865 pr/3).

The Charter and other internal documents regulating our management bodies can be found at Section "Founding and Internal Documents" of our official web-site.

MANAGEMENT AND CONTROL BODIES OF THE COMPANY

The General Shareholder Meeting

The supreme management body of IDGC of Urals, OAO is General Shareholder Meeting. The procedure for GSM convention and arrangement is stipulated by the Charter and the Regulations on the Procedure for AGSM Convention and Arrangement. Our regular AGSM held on June 13, 2013 (protocol #6) approved the Company's annual report, annual financial statements (including profit and loss statements), 2012 profit distribution;

amount of dividends as well as form and terms for dividend payout; election of the BoD and AC members, approval of the Company's auditor, approval of the Regulations on Remunerations and Compensations paid to the BoD members and Regulations on Remunerations and Compensations paid to AC members. (The full version of the AGSM resolution can be found at Section "Corporate Governance" of our official web-site).

The Board of Directors

The Board of Directors administers the Company's activities, except for the issues referred to the GSM competence by the Joint-Stock Companies' Law and the Charter. The BoD ensures control over the executive bodies, efficient interaction among the bodies and observation and protection of rights and legitimate shareholder interests. The BoD competence includes decision-taking on the following key issues: determination of priorities and development strategy of the Company, placement of bonds and other securities (except for the cases stipulated by the Russian legislation), election of the CEO and pre-term termination of the powers (including resolutions on pre-term cancellation of the CEO's labor contract), determination of MB membership, election of MB members, remunerations and compensations paid to the MB members, pre-term termination of the powers, recommendations on the amount of dividends on shares and payout procedure, approval of large transactions and interested-party transactions (in cases stipulated by the Joint-Stock Companies' Law). The full list of key competence issues of the BoD is set forth by the Charter (item 15.1, article 15).

The BoD sessions are arranged on a regular basis but no less than once in six weeks. In 2013 there were 17 BoD sessions that reviewed 276 various operating issues. The most important BoD resolutions adopted in 2013 were:

- approval of the Corporate Ethics Code (protocol #122 dd. 25.03.2013);
- approval of the Corporate Governance Code in a new version (protocol #122 dd. 25.03.2013);
- approval of Insurance Coverage Program for 2013 (protocol #124 dd. 23.04.2013);





- approval of positions subject to approval by the Board of Directors (protocol #126 dd. 30.05.2013);
- approval of the Regulations on Personnel and Remunerations Committee in a new version (protocol #126 dd. 30.05.2013);
- approval of the Regulations on the Company's Information Policy in a new version (protocol #130 dd. 28.08.2013);
- approval of the Regulations on the Company's credit policy in a new version (protocol #131 dd. 24.09.2013);
- approval of the concept dealing with repairs and maintenance reference data management system (protocol #132 dd. 21.10.2013);
- approval of the Regulations on the Company's investment operations (protocol #132 dd. 21.10.2013);
- approval of the Company's business plan including investment program for 2014 and forecast for 2015-2018 (protocol #135 dd. 16.12.2013);
- approval of a candidate to the position of a lead manager for the Company's commercial papers (protocol #136 dd. 30.12.2013).

The BoD also regularly reviews CEO's reports on various issues and execution of BoD resolutions. In 2013 the Board of Directors approved 42 interested-party transactions. Interested-party transactions approved by the BoD in 2013 are disclosed in the Appendix to the present annual report). There were no transactions acknowledged by the Joint-Stock Companies' Law as major as well as other transactions which are, under the Charter, subject to major transaction approval procedure in 2013.

According to item 16.1 of the Charter the Board of Directors consists of 11 persons. The current membership of the Board of Directors (All BoD positions are as of the election date. All BoD members gave written consent, as stipulated by the Russian legislation, on the use of personal information in the annual report) was elected on June 13, 2013 by the AGSM (protocol #6 dd. 14.06.2013):

Ruslan Raisovich Magadeev (1977)

Education: Magnitogorsky State Technical University. Since 2013 Head of Operating Technological Management Department at IDGC Holding. Share in the charter capital – none.

Seppo Uha Remes (1955)

Education: Oulu University and High School of Economics and Business Administration (Finland). Since 2008 General Director at Kiuru, since 2006 – the BoD Chairperson of EOS Russia. Share in the charter capital – none.

Mikhail Viktorovich Azovtsev (1978)

Education: State University – High School of Economics (Moscow). Since 2012 Project Director at GK Renova. Share in the charter capital – none.

Evgenyi Rudolfovich Villevald (1971)

Education: Moscow Lomonosov State University. Since 2012 Project Director at GK Renova. Share in the charter capital – none.

Natalya Aleksandrovna Ozhe (1974)

Education: Moscow Lomonosov State University. Since 2012 Project Director at GK Renova. Share in the charter capital – none.

Dmitry Igorevich Gotlib (1979)

Education: Chuvashia State University. In 2013 Deputy General Director for Development and Sales at Russian Grids. Share in the charter capital – none.

Evgenyi Nikolayevich Zhuykov (1961)

Education: Sverdlovsk Economics University (profession: Economics and Supply Planning). Since 2011 General Director at FSK UES – MES of the Urals. Share in the charter capital – none.

Madina Valeryevna Kaloeva (1980)

Education: North Osetia State University. Since 2012 Deputy Director for Corporate Governance, Pricing Environment and Control Operations in FEC at Russian Ministry of Energy. Share in the charter capital – none.

Anton Mikhailovich Kislyakov (1970)

Education: Moscow State Law Academy. Since 2008 First Deputy Head of Legal Department at IDGC Holding. Share in the charter capital – none.

Valery Nikolayevich Rodin (1952)

Education: Urals Polytechnic Institute (profession: Thermal Power Plants). Since 2009 General Director of IDGC of Urals. Share in the charter capital – 0.0081%.

Aleksandr Nikolayevich Fadeev (1949)

Education: Moscow Institute of geodesy, aerial photography and cartography. Since 2011 Security Director at FSK UES. Share in the charter capital – none.



The BoD members performed no transactions on share acquisition or alienation during the reported period. To ensure the objectivity of adopted resolutions and balance of interest expressed by different shareholder groups the Company strives to have at least 3 (Three) independent directors.

Criteria determining the amount and payment frequency of the BoD remunerations as well as the amount of BoD-related expense compensation are determined by the Regulations on Remunerations and Compensations paid to the BoD members approved by the AGSM (protocol #6 dd. 14.06.2013). According to the Regulations BoD remuneration consists of fixed and variable parts and includes 3 payment categories:

1. For each BoD session in which a BoD member participated (individual work).
2. Additional remuneration for net profit according to RAS statements, approved by the AGSM.
3. Additional remuneration for increased capitalization during the BoD terms of office.

To view the full version of the Regulations, please, visit Section “Founding and Internal Documents” of our official web-site.

THE COMMITTEES OF THE BOARD OF DIRECTORS

The Committees are consultative bodies enabling efficient company governance by the BoD. The Committees act according to the Regulations stipulating their status, aims and goals, rights and liabilities, structure and membership. In their activities the Committees adhere to federal laws, other Russian regulatory documents, the Charter, the Regulations on the Procedure for BoD Convention and Arrangement and BoD resolutions. In 2013 there were 5 Committees in the Company.

The Audit Committee consists of 5 persons:

- Evgenyi Nikolaevich Zhuykov
- Seppo Uha Remes
- Mikhail Viktorovich Azovtsev
- Anton Mikhailovich Kislyakov
- Aleksandr Nikolaevich Fadeev

The Committee consists only of independent BoD members that are not the sole executive body and (or) members of a collegiate executive body of the issuer and comply with requirements set forth by the stock exchange to issuers with shares traded in quotation lists.



Resolutions of the Committee are published in Section “Corporate Governance” of our official web-site.

The Personnel and Remunerations Committee consists of 3 persons:

- Aleksandr Nikolaevich Fadeev
- Evgenii Nikolayevich Zhuykov
- Natalya Alesandrovna Ozhe

Resolutions of the Committee are published in Section “Corporate Governance” of our official web-site.

The Strategy and Development Committee consists of 12 persons:

- Sergey Yuryevich Lebedev
- Sergey Sergeevich Ezimov
- Konstantin Mikhailovich Yushkov
- Evgenii Rudolfovich Villevald
- Mikhail Viktorovich Azovtsev
- Yuri Vyacheslavovich Lebedev
- Astkhik Artashesovna Bashindzhagyan
- Tatyana Aleksandrovna Ivanova
- Andrey Vladimirovich Lisavin
- Marina Aleksandrovna Lavrova
- Irina Vladimirovna Bogacheva
- Andrey Sergeevich Kolyada

Resolutions of the Committee are published in Section “Corporate Governance” of our official web-site.

The Reliability Committee consists of 6 persons:

- Konstantin Mikhailovich Yushkov
- Sergey Aleksandrovich Semerikov
- Aleksei Vladimirovich Sanin
- Denis Dmitrievich Belousov
- Evgenii Rudolfovich Villevald
- Irina Borisovna Masaleva
- Andrey Igorevich Tyutin

Resolutions of the Committee are published in Section “Corporate Governance” of our official web-site.

The Technological Connection Committee consists of 7 persons:

- Konstantin Mikhailovich Yushkov
- Sergey Aleksandrovich Semerikov
- Aleksei Vladimirovich Sanin
- Denis Dmitrievich Belousov
- Evgenii Rudolfovich Villevald
- Irina Borisovna Masaleva
- Andrey Igorevich Tyutin

Resolutions of the Committee are published in Section “Corporate Governance” of our official web-site.



THE MANAGEMENT BOARD

The collegiate executive body works under the Charter and our internal document, approved by a GSM – the Regulations on the Management Board which stipulates the terms and procedure for MB convention and arrangement as well as decision-taking. The Management Board administers the current company operations and is responsible to the BoD and GSM. According to the Charter the membership of the Management Board is determined by the Board of Directors. During 2013 the Management Board consisted of 11 persons (All MB members gave written consent, as stipulated by the Russian legislation, on the use of personal information in the annual report):

Valery Nikolayevich Rodin (1952)

The Chairperson, General Director of IDGC of Urals (since 2009). Education: Urals Polytechnics Institute (1974), profession: Thermal Plants. Share in the charter capital – 0.0081%.

Yury Vyacheslavovich Lebedev (1963)

Deputy General Director for Technical Issues – Chief Operating Officer. Education: Ivanov Energy Institute (1985), profession: Industrial and Transmission Automation. Share in the charter capital – none.

Evgenyi Gennadyevich Popov (1959)

Deputy General Director for Corporate Governance. Education: Urals Polytechnics Institute (1983), profession: Technical Physics. Share in the charter capital – none.

Olga Mikhailovna Abrosimova (1953)

Chief Accountant. Education: Urals State Technical Institute (1995), profession: Management and Economics in companies. Share in the charter capital – 0.000947%.

Aleksey Alekseevich Krasnikov (1950)

Deputy General Director for Security. Education: Sverdlovsk Law Institute (1972), Academy of Internal Affairs Ministry. Share in the charter capital – none.

Sergey Aleksandrovich Semerikov (1979)

Deputy General Director for Capital Construction. Education: UGTU – UPI (2001), profession: Project Management. Share in the charter capital – none.

Sergey Mikhailovich Zolotarev (1966)

Deputy General Director for Development and Sales. Education: Chelyabinsk Polytechnics Institute (1988), profession: Energy supply of industrial companies, settlements and agriculture. Share in the charter capital – none.

Yury Petrovich Shevelev (1962)

Deputy General Director for Economics and Finance. Education: Urals Polytechnics Institute (1988), profession: Electrodrives and Automation of Industrial Equipment. Share in the charter capital – none.

Oleg Borisovich Moshinsky (1969)

Deputy General Director – Sverdlovenergo director. Education: Urals Polytechnics Institute (1991), profession: Energy Systems. Share in the charter capital – 0.00000128%.

Oleg Mikhailovich Zhdanov (1959)

Deputy General Director – Permenergo director. Education: Perm Polytechnics Institute (1981), profession: Chemical and Technological Processes Automation. Share in the charter capital – none.

Igor Vladimirovich Butakov (1961)

The Management Board consists of the most competent and experienced specialists able to properly perform their duties. The MB Chairperson is the General Director according to item 2, art. 70 of the Joint-Stock Companies' Law and item 23.3 of the Charter. The MB members performed no transactions on share acquisition or alienation during the reported period.

According to the Charter, employer's rights and liabilities, on behalf of the Company, in regard to the MB members are performed by the BoD or a person authorized by the BoD. Conditions of labor contracts



(including remuneration), concluded with the MB members in the name of the Board of Directors, are determined by Valery Nikolayevich RODIN. No remuneration was paid to the MB members for MB sessions.

During 2013 there were 11 MB sessions that reviewed various issues under the competence of supreme management bodies of the companies 100%-owned by IDGC of Urals as well as approval of transactions with property worth 1–25% of the book asset value.

General Director

The Company's operations are controlled by the sole executive body of the Company – the General Director. The competence includes all current operating issues, except for the issues referred to the competence of the General Shareholder Meeting, Board of Directors and Management Board. Valery Nikolayevich Rodin was the Company's General Director since 30.03.2009 till 30.04.2014. The CEO's share in the charter capital

totals 0.0081%. There were no transactions on acquisition or alienation of shares during the reported year. Since 01.05.2014 Yury Vyacheslavovich Lebedev is the Acting General Director. The share in the charter capital: none.

The CEO's remuneration, according to item 18.6. of the Charter, is determined by the contract concluded between him and the Company. The conditions of the labor contract are approved by the BoD.

Overall remunerations paid out to the BoD members during 2013 totaled RUR 26 641 thous. Overall remunerations paid out to the MB members, including the sole executive body, totaled RUR 101 698 thous.

The Audit Commission

Financial operations of IDGC of Urals, OAO are controlled by the Audit Commission, according to item 24.1 of the Charter. The membership is 5 (Five) persons. During the reported period the membership of the Audit Commission, elected by the AGSM on June 13, 2013 was as follows:

Name	Position ^[1]
Andrey Veniaminovich Belsky	Head of Corporate Secretary Directorate at KES, ZAO
Lyudmila Dmitrievna Kormushkina	Head of Audit and Expertise Section of Internal Audit and Risk Management Department at IDGC Holding
Sergey Vladimirovich Malyshev	Chief expert of Control and Audit Department at FSK UES
Valery Nikolayevich Zakharchuk	Deputy Head of Economic Security Department – Head of Control over Contracts and Purchases Section at FSK UES
Konstantin Sergeevich Serebryakov	Head of Corporate Events Directorate at IDGC Holding

[1] – All AC positions are as of the election date

The Audit Commission covers the following spheres:

- Audit of financial and operating documentation, including initial accounting documents (if required);
- Audit of the legality of resolutions and performance of the executive bodies, including concluded contracts and completed transactions;
- Audit of the compliance of transactions' conditions with the conditions of transactions made under the comparable circumstances;
- Analysis of the compliance of the accounting policy with the current regulatory documents;
- Analysis of the financial status and detection of reserves for improving economic situation;
- Analysis of timeliness and correctness of payments to contractors, various budgets, shareholders and other creditors;

- Analysis of payments of debtors, including timeliness and adequacy of measures taken by the executive bodies;

- Other activities under the AC competence.

AC remuneration and payment procedure are determined by the Regulations on Remunerations and Compensations paid to the AC members, approved by the Company's GSM. In 2013 AC members and engaged specialists earned RUR 1 605.0 thous. including taxes.

The external auditor

In 2010 a nominee for an auditor position was selected by the Holding's audit tender commission. The commission recommended KPMG, ZAO as our auditor. Afterwards it was approved by the AGSM as the auditor for 2013. The cost of the audit in 2013 totaled RUR 1 558 788, including 18% VAT.

